

Barrick Mercur, file

M/045/017

LAW OFFICES

PARSONS, BEHLE & LATIMER

A PROFESSIONAL CORPORATION

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May 7, 1987

Lowell P. Braxton, Administrator  
Mineral Resource Development  
and Reclamation Program  
Division of Oil, Gas & Mining  
355 West North Temple  
3 Triad Center, Suite 350  
Salt Lake City, UT 84180-1203



Re: Barrick Mercur Gold Mines, Inc., ACT/045/017,  
Folder # 5, Tooele County, Utah

Dear Mr. Braxton:

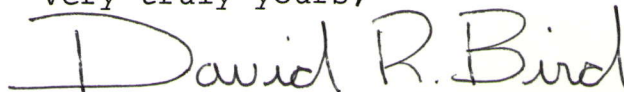
Pursuant to Barrick's agreement when its MRP Revision was approved by your office on December 15, 1986, I am enclosing a copy of the audited corporate financial statements for American Barrick Resources Corporation for the calendar year ending December 31, 1986.

My review shows a current assets to current liabilities ratio of  $\$153,022,000 / \$123,464,000 = 1.24$ , which is greater than the required 1.2 minimum. The total liabilities to total net worth ratio is  $\$273,078,000 / \$141,407,000 = 1.93$ , which is less than the 2.5 upper limit. These were the two parameters of concern to Barrick and the DOGM staff when the revision was approved. The audited financial statements show them to be within the required ranges.

Lowell P. Braxton  
May 8, 1987  
Page Two

We appreciate your assistance and cooperation in this matter and if you require additional information, please feel free to contact me.

Very truly yours,

A handwritten signature in dark ink that reads "David R. Bird". The signature is written in a cursive style with a large, prominent "D" at the beginning.

David R. Bird  
of and for  
PARSONS, BEHLE & LATIMER

DRB/ms

Enclosures

cc: Max Staheli  
Jeremy Garbutt  
Frank D. Wicks  
Glenn M. Eurick

# Consolidated Balance Sheets

American Barrick Resources Corporation  
as at December 31, 1986 and 1985 (in thousands)



Assets	1986	1985
<b>Current assets</b>		
Cash and short-term deposits	\$ 2,879	\$ 2,742
Marketable securities (notes 4 and 19(d))	129,301	591
Accounts receivable	8,369	5,256
Inventories and prepaid expenses (note 5)	12,473	9,810
	<b>153,022</b>	18,399
Property, plant and equipment (note 6)	222,462	164,762
Investments (note 7)	19,653	19,929
Other assets (note 8)	19,348	11,805
	<b>\$414,485</b>	<b>\$214,895</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 21,828	\$ 15,113
Loans payable (note 9)	30,790	5,332
Notes payable on business acquisition (note 3)	38,954	—
Current portion of long-term liabilities and deferred revenue (notes 10 and 11)	31,892	1,214
	<b>123,464</b>	21,659
Long-term debt and other liabilities (note 10)	80,512	12,503
Deferred revenue (note 11)	61,868	85,649
Deferred taxes	7,234	8,069
<b>Total Liabilities</b>	<b>273,078</b>	127,880
<b>Shareholders' equity</b>		
Capital stock (note 12)	127,790	134,385
Retained earnings (deficit)	13,617	(47,370)
	<b>141,407</b>	87,015
	<b>\$414,485</b>	<b>\$214,895</b>

Commitments and contingent liabilities (note 19)

Signed on behalf of the board

Peter Munk, Director

C.W.D. Birchall, Director

See accompanying notes to consolidated financial statements



## Consolidated Statements of Income

American Barrick Resources Corporation

for the years ended December 31, 1986, 1985 and 1984 (in thousands except per share data)

	1986	1985	1984
<b>Revenue</b>	<b>\$ 89,824</b>	<b>\$ 48,518</b>	<b>\$ 13,783</b>
<b>Expenses</b>			
Operating costs	51,319	30,305	9,924
Administration	5,246	3,388	3,005
	56,565	33,693	12,929
<b>Income from operations</b>	<b>33,259</b>	<b>14,825</b>	<b>854</b>
Other income (note 13)	5,910	6,704	2,600
Interest expense (including interest on long-term debt of \$3,009, 1985 \$3,151, 1984 \$3,182)	(4,996)	(3,815)	(5,645)
Depreciation, depletion and amortization	(15,426)	(11,497)	(4,555)
Exploration costs	(175)	(448)	—
Discontinued operations	—	204	1,961
<b>Income (loss) before taxes and extraordinary items</b>	<b>18,572</b>	<b>5,973</b>	<b>(4,785)</b>
Resource taxes	(710)	(450)	(439)
Deferred income taxes (note 14)	(2,800)	(1,500)	1,508
<b>Net income (loss) before extraordinary items</b>	<b>15,062</b>	<b>4,023</b>	<b>(3,716)</b>
Extraordinary items (note 15)	—	(26,392)	(12,378)
<b>Net income (loss) for the year</b>	<b>\$ 15,062</b>	<b>\$ (22,369)</b>	<b>\$ (16,094)</b>
<b>Net income (loss) per share</b>			
Before extraordinary items	\$0.74	\$ 0.21	\$(0.25)
For the year	\$0.74	\$(1.17)	\$(1.05)
<b>Fully diluted net income (loss) per share (note 12)</b>			
Before extraordinary items	\$0.71	\$ 0.21	\$(0.25)
For the year	\$0.71	\$(1.17)	\$(1.05)

## Consolidated Statements of Retained Earnings

for the years ended December 31, 1986, 1985, 1984 (in thousands)

	1986	1985	1984
<b>Deficit at beginning of year</b>	<b>\$(47,370)</b>	<b>\$(24,854)</b>	<b>\$( 7,456)</b>
Elimination of deficit by reduction in stated capital (note 12)	47,370	—	—
Net income (loss) for the year	15,062	(22,369)	(16,094)
Costs incurred in raising capital (net of income taxes of \$1,500)	(1,445)	—	( 1,304)
Excess of cost over proceeds from resale of shares held by a subsidiary	—	(147)	—
<b>Retained earnings (deficit) at end of year</b>	<b>\$ 13,617</b>	<b>\$(47,370)</b>	<b>\$(24,854)</b>

See accompanying notes to consolidated financial statements

## Consolidated Statements of Changes in Financial Position

American Barrick Resources Corporation  
for the years ended December 31, 1986, 1985 and 1984 (in thousands)

	1986	1985	1984
<b>Cash provided by (used in) operating activities</b>			
Net income (loss) before extraordinary items	\$ 15,062	\$ 4,023	\$ (3,716)
Non-cash items:			
Depreciation, depletion and amortization	15,426	11,611	5,827
Deferred income taxes	2,800	1,500	(1,508)
Deferred revenue	(7,244)	(6,954)	(610)
Share of earnings of equity accounted companies	(2,072)	(2,512)	(300)
Other	(117)	11	109
	<u>23,855</u>	<u>7,679</u>	<u>(198)</u>
Cash provided by (reinvested in) working capital			
Accounts receivable	(2,548)	352	3,616
Inventories and prepaid expenses	(2,273)	(1,828)	(19)
Accounts payable and accrued liabilities	5,523	3,280	(3,307)
<b>Cash provided by operating activities</b>	<u>24,557</u>	<u>9,483</u>	<u>92</u>
<b>Cash provided by (used in) investment activities</b>			
Business acquisitions			
Cost (net of cash acquired of \$1,324, 1985 \$742, 1984 cash deficiency \$55,144)	(48,186)	(44,956)	(109,378)
Notes payable	38,954	—	—
Equipment sale	8,106	—	—
Notes receivable	1,344	4,706	1,991
Property, plant and equipment	(27,796)	(17,411)	(19,140)
Marketable securities	(97,467)	(572)	(513)
Petroleum and natural gas interests	—	32,731	1,961
Affiliated company advances	—	(2,363)	(1,144)
Other	682	982	(2,476)
<b>Cash (used in) investment activities</b>	<u>(124,363)</u>	<u>(26,883)</u>	<u>(128,699)</u>
<b>Cash provided by (used in) financing activities</b>			
Long-term debt	68,762	(42,558)	7,156
Capital stock	40,799	4,224	82,397
Gold purchase warrants	5,521	—	—
Bullion loan	(6,332)	34,868	—
Costs incurred in raising capital	(2,945)	—	(1,304)
Gold Company of America	—	53,003	—
Renabie Gold Trust	—	—	7,490
Other	457	(1,246)	(2,226)
<b>Cash provided by financing activities</b>	<u>106,262</u>	<u>48,291</u>	<u>93,513</u>
<b>Increase (decrease) in cash</b>	<u>6,456</u>	<u>30,891</u>	<u>(35,094)</u>
<b>Cash at beginning of year</b>	<u>(1,741)</u>	<u>(32,632)</u>	<u>2,462</u>
<b>Cash at end of year</b>	<u>\$ 4,715</u>	<u>\$ (1,741)</u>	<u>\$ (32,632)</u>
<b>Components of cash</b>			
Cash and short-term deposits	\$ 2,879	\$ 2,742	\$ 1,353
Bullion settlements receivable	1,836	849	229
Current bank loans	—	(5,332)	(34,214)
	<u>\$ 4,715</u>	<u>\$ (1,741)</u>	<u>\$ (32,632)</u>

See accompanying notes to consolidated financial statements

## Notes to Consolidated Financial Statements

American Barrick Resources Corporation  
(tabular dollar amounts in thousands)

### 1. Accounting policies

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada. Summarized below are those policies considered particularly significant for the Company.

#### (a) Basis of consolidation

The consolidated financial statements include the accounts of the Company and all significant subsidiaries except for Muskingum Mining Incorporated, its wholly-owned subsidiary which operates two coal mines in Ohio. Muskingum is accounted for by the equity method as its operations are not part of the Company's principal business and the Company plans to dispose of these operations.

Certain of the Company's gold mining and mineral exploration activities are conducted jointly with others and the financial statements reflect the Company's proportionate interest in such activities.

#### (b) Translation of foreign currencies

The Company's integrated foreign operations are translated by the temporal method whereby monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date, non-monetary assets and liabilities and related depreciation and amortization are translated at historical exchange rates and revenues and expenses are translated at the exchange rates in effect at transaction dates.

The Company's self-sustaining United States gold operations, are translated using the current rate method whereby all assets and liabilities are translated at exchange rates prevailing at the year end and revenue and expense items at average exchange rates for the year. Translation adjustments arising from changes in exchange rates will form part of the change in the deferred translation adjustments component of shareholders' equity. These adjustments are not included in operations until realized through a reduction in the Company's net investment.

#### (c) Inventories

Bullion inventory is valued at net realizable value. Gold in process which is contained in the milling circuit and in the ore stock pile is valued at the lower of average cost and net realizable value.

Mine operating supplies are valued at the lower of average cost and net realizable value.

#### (d) Property, plant and equipment

##### (i) Property acquisition and deferred mine costs

Property acquisition and deferred underground mine costs are recorded at cost and amortized by the unit of production method based on proven, probable and possible ore reserves.

Mining costs incurred at open pit mines are deferred and charged to income on the basis of the average stripping ratio for the mine.

##### (ii) Buildings and equipment

Buildings and equipment are recorded at cost and depreciated, net of residual value, using the straight-line method based on the estimated useful lives of the assets ranging from 3 to 20 years.

Repairs and maintenance expenditures are charged to operations; major improvements and replacements which extend the useful life of an asset are capitalized and depreciated over the remaining estimated useful life of that asset.

##### (iii) Properties under development

Costs incurred in bringing a mining property into production are deferred until commercial production has been achieved at which time the capitalized costs are depreciated and amortized in accordance with the policies described above.

##### (iv) Mineral exploration

Expenditures on mineral exploration programmes are deferred on a project basis until the viability of the project is determined. If a project is abandoned, the accumulated project costs are charged to operations in the year in which the determination is made. Costs associated with economically viable projects are depreciated and amortized in accordance with the policies described above.

## 2. Accounting policy change

Following the acquisition of the Mercur mine and the additional interest in the Pinson mine the Company carried out a review of its depreciation policies and reserve estimates. As a result, the Company adopted the straight-line method of depreciation for its buildings, mill facilities and equipment, whereby the cost of such assets, less their residual value, is depreciated over their estimated economic lives. This change, from the unit of production method, results in a more appropriate matching of revenues and expenses and is considered preferable. The effect of the change, which was implemented with effect from January 1, 1985, on the 1985 and prior years' results was not material and, accordingly, prior years' results have not been restated.

## 3. Business acquisitions

### Goldstrike

On December 31, 1986, the Company, through a wholly-owned indirect subsidiary, Barrick Goldstrike Mines Inc., acquired a 50% interest in the Western States Joint Venture for \$42,858,640 from the operator, Western States Minerals Corporation. The Western States Joint Venture, constituted under the laws of the state of Colorado, owns the Goldstrike Mine, an open pit gold mine, located in the Elko and Eureka counties of Nevada, U.S.A. Contemporaneously with the purchase the Company was appointed operator of the joint venture.

Consideration for the purchase is payable in instalments with \$10,252,000 paid on closing, \$12,000,640 paid on January 19, 1987, \$10,464,000 due on March 31, 1987 and \$10,142,000 due on June 30, 1987. The instalments are secured by the joint venture interest acquired and a guarantee of the Company.

The Company also acquired the mobile mining equipment for \$6,347,080 (US\$4,600,000) which, prior to the acquisition, had been rented to the joint venture.

The acquisition has been accounted for as a purchase and, accordingly, since the acquisition was completed on December 31, 1986, the results of the joint venture operations will be included in the Company's consolidated financial statements beginning January 1, 1987. The value of the assets and liabilities acquired, including the equipment purchased, based on the consideration paid was as follows:

### Assets

Current assets	\$ 1,919
Property acquisition, deferred mine costs, buildings and equipment	49,692
	<u>51,611</u>

### Liabilities

Current liabilities	1,130
Reserve for reclamation	971
	<u>2,101</u>

### Net assets at values assigned

\$ 49,510

### Consideration

Cash	\$ 10,252
Notes payable	38,954
Costs of acquisition	304
	<u>\$ 49,510</u>

On January 17, 1987 the Company acquired the other half of the Western States Joint Venture through its acquisition of PanCana Minerals Ltd. (note 20).

## Notes to Consolidated Financial Statements *(continued)*

American Barrick Resources Corporation

### Mercur

On June 28, 1985, the Company, through a wholly-owned indirect subsidiary, Barrick Resources (USA) Inc., purchased all of the issued and outstanding shares of a company, which owns the Mercur gold mine, for US\$31,000,000 and contingent consideration of a US\$9,000,000 production payment on which payments will be made, based on one half of any additional revenue from gold sold above US\$385 an ounce. Any such payments will be added to the cost of the assets acquired. As at December 31, 1986 US\$398,261 had been paid.

The acquisition has been accounted for as a purchase and, accordingly, these consolidated statements include the results of operations from the date of acquisition. The value of the assets and liabilities acquired based on the consideration paid, was as follows:

#### Assets

Current assets	\$ 5,748
Property acquisition, deferred mine costs, buildings and equipment	41,828
	<u>47,576</u>

#### Liabilities

Current liabilities	3,077
Long-term liabilities	1,155
	<u>4,232</u>

#### Net assets at values assigned

\$ 43,344

#### Consideration

Cash	\$ 42,120
Costs of acquisition	1,224
	<u>\$ 43,344</u>

### Pinson

Effective December 31, 1985 the Company acquired all of the issued and outstanding shares of Siscoe Holdings Co., a wholly-owned subsidiary of United Siscoe Mines Inc., which owns a 26.25% interest in the Pinson gold mine and owed the Company \$12,892,000, for total consideration of \$5,756,000. Prior to the acquisition the Company held an indirect 43.7% interest in Siscoe Holdings. As part of the consideration for the purchase, the Company tendered its United Siscoe shares to United Siscoe for cancellation. As a result the Company has accounted for the transaction as a purchase of 56.3% of Siscoe Holdings and a disposition, at fair value, of its interest in United Siscoe's assets and liabilities other than Siscoe Holdings. Since the effective date of the transaction was the last day of the fiscal year there was no effect on 1985 operating income. The Company's gain of \$437,000 on the disposition of its United Siscoe interest and the results of United Siscoe's operations are included in discontinued operations. The results of its interest in the Pinson Mine have been included in other income in 1985 and 1984.



The value of the assets and liabilities acquired, based on the consideration paid was as follows:

<b>Assets</b>	
Current assets	\$ 1,335
Property acquisition, deferred mine costs, buildings and equipment	13,196
Other	163
	<u>14,694</u>
<b>Liabilities</b>	
Current liabilities	1,192
Due to American Barrick	7,258
Long-term liabilities	488
	<u>8,938</u>
<b>Net assets at values assigned</b>	<u><u>\$ 5,756</u></u>
<b>Consideration</b>	
Cash	\$ 3,074
Promissory note due January 1, 1987	1,000
United Siscoe Mines Inc. shares tendered for cancellation	1,592
Costs of acquisition	90
	<u><u>\$ 5,756</u></u>

In addition to the tangible consideration paid, the Company undertook to place by December 31, 1986, United Siscoe's shareholding in the Company in an amount sufficient, when combined with the promissory note given as part consideration for the transaction, to completely repay United Siscoe's outstanding bank indebtedness. The Company has also agreed to provide management services at no charge to United Siscoe until the bank indebtedness has been fully repaid.

#### **Camflo**

On July 14, 1984, the Company amalgamated with Camflo Mines Limited ("Camflo") and Bob-Clare Investments Limited ("Bob-Clare"), companies operating in the gold mining and petroleum and natural gas industries, continuing as American Barrick Resources Corporation (formerly Barrick Resources Corporation), whereby common shareholders of the Company received one common share of the amalgamated corporation for each common share held. Preferred shareholders of the Company received one preferred share, with identical attributes, of the amalgamated corporation for each preferred share held. Shareholders of Camflo, except Bob-Clare, whose Camflo shares were cancelled, received seven common shares of the amalgamated corporation for each common share held. Shareholders of Bob-Clare received 952,381 First preferred shares, Series B of the amalgamated corporation. Concurrent with the amalgamation, the Company completed a private placement of \$30,000,000 of treasury shares, repaid \$26,277,000 of bank debt and restructured the remaining bank debt into a \$40,000,000 term loan and a \$30,000,000 operating loan.

**Notes to Consolidated Financial Statements** *(continued)*  
American Barrick Resources Corporation

As the amalgamation resulted in the previous shareholders of the Company owning a majority of the shares of the amalgamated Company, the amalgamation has been accounted for as a purchase by the Company of Camflo and Bob-Clare as at July 14, 1984 and, accordingly, these consolidated financial statements include the results of operations of Camflo and Bob-Clare from that date. Details of the acquisition are as follows:

**Assets**

Property acquisition, deferred mine costs, buildings and equipment	\$ 59,528
Mineral exploration	14,000
Petroleum and natural gas	56,900
Investments	39,698
Other assets	1,548
	<u>171,674</u>

**Liabilities**

Working capital deficiency	53,894
Long-term debt and other liabilities	64,596
	<u>118,490</u>

**Net assets at fair values assigned**

\$ 53,184

**Consideration**

Issue of	
22,817,795 common shares	\$ 47,917
952,381 First preferred shares, Series B	2,000
6,000,001 warrants	3,000
	<u>52,917</u>
Deduct Company's interest in its shares held by business acquired	1,261
	<u>51,656</u>
Costs of amalgamation	1,528
	<u>\$ 53,184</u>

**4. Marketable securities**

As at December 31, 1986 the Company's marketable securities consisted principally of a significant shareholding in Consolidated Gold Fields PLC, a major international mining company. The market value of the Company's marketable securities at year end was \$116,774,000 as compared with a book value of \$108,269,000. Subsequent to the year end, marketable securities with a book value of \$88,144,000 were sold for \$95,809,000. No gross unrealized losses are included in the portfolio at year end.

Included in marketable securities as at December 31, 1986 was a margin deposit of \$3,836,000 (US\$2,780,000) which the Company had funded in connection with its participation in gold options trading (note 19(d)) and amounts due from brokers of \$17,196,000.

**5. Inventories and prepaid expenses**

	1986	1985
Mine operating supplies	\$ 5,642	\$5,100
Gold in process	5,826	3,598
Prepaid expenses	1,005	1,112
	<u>\$12,473</u>	<u>\$9,810</u>

6. Property, plant and equipment	1986			1985		
	Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net
Property acquisition and deferred mine costs	\$133,948	\$20,549	\$113,399	\$ 81,808	\$10,482	\$ 71,326
Buildings and equipment	78,267	10,840	67,427	81,469	7,930	73,539
Equipment under capital lease	7,229	1,296	5,933	—	—	—
Property under development	22,369	—	22,369	—	—	—
Mineral exploration	13,334	—	13,334	19,897	—	19,897
	<u>\$255,147</u>	<u>\$32,685</u>	<u>\$222,462</u>	<u>\$183,174</u>	<u>\$18,412</u>	<u>\$164,762</u>

7. Investments	1986	1985
<b>Muskingum Mining Incorporated</b>		
Notes receivable US\$4,738,000 (1985 US\$10,878,000)	\$ 6,538	\$14,234
Shares, at cost	6,200	633
Share of earnings	5,888	3,816
	<u>18,626</u>	<u>18,683</u>
<b>Gold Company of America</b>		
Units, at cost (market value \$1,131,120, 1985 \$945,600)	1,027	1,246
	<u>\$19,653</u>	<u>\$19,929</u>

During the year the Company merged one of its subsidiaries with Muskingum which resulted in an exchange of certain of the Company's notes receivable for additional shares of Muskingum.

8. Other assets	1986	1985
Premium due on maturity of notes payable (note 10)	\$ 7,727	\$ —
Deferred income tax benefit of loss carry-forwards	6,982	9,000
Deferred financing costs (note 10)	2,895	818
Other	1,744	1,987
	<u>\$19,348</u>	<u>\$11,805</u>

9. Loans payable	1986	1985
Brokers' margin accounts	\$30,790	\$ —
Bank loans	—	5,332
	<u>\$30,790</u>	<u>\$5,332</u>

The brokers' margin accounts bear interest and are collateralized by the Company's shareholding in Consolidated Gold Fields PLC. The brokers' accounts were repaid subsequent to the year end.

## Notes to Consolidated Financial Statements *(continued)*

American Barrick Resources Corporation

10. Long-term debt and other liabilities	1986	1985
Guaranteed notes payable	\$76,925	\$ —
Bank loans	4,000	4,742
Capital leases	6,360	1,087
Reclamation reserve	3,215	1,538
Deferred compensation	2,794	1,935
Other	—	4,415
	<u>93,294</u>	<u>13,717</u>
Current portion of long-term liabilities	12,782	1,214
	<u>\$80,512</u>	<u>\$12,503</u>

### Guaranteed notes payable

On October 31, 1986 Barrick Resources (USA) Inc. an indirect, wholly-owned subsidiary of the Company issued US\$50,000,472 5 $\frac{1}{4}$ %, guaranteed notes. The notes are convertible into gold bullion, at the option of the holder, at any time after October 31, 1987 and prior to maturity, at US\$530 per ounce of gold. Any notes tendered for conversion into gold may be reissued by the Company. The notes, to the extent not converted into gold, mature on October 31, 1991 at 111.5% of the original principal amount, which at the date of issue was US\$55,750,531. The premium of \$7,993,150 (US\$5,750,059) and costs associated with the issue are included in other assets and are amortized over the term of the notes.

The notes are unsecured and guaranteed by the Company. The issuer has covenanted not to incur debt in excess of US\$150,000,000 unless such additional indebtedness is secured indebtedness incurred to acquire or bring into production a gold producing asset. The Company has covenanted not to create any additional security interests in assets held prior to October 31, 1986 unless such security interest is required to raise funds to acquire or bring into production a gold producing asset. The Company has also covenanted to maintain gold production at a level sufficient to meet its commitments to deliver gold.

### Bank loan

The bank loan bears interest at Canadian prime plus  $\frac{7}{8}$  of 1% (10.6% December 31, 1986) and is collateralized by the granting of a security interest in the assets of the Renabie mine as part of a fixed and floating charge demand debenture in the amount of \$10,000,000. The loan is revolving until September 30, 1987 at which time the then outstanding amount is repayable in equal monthly instalments commencing on October 31, 1987 and continuing to at least September 30, 1989 but not beyond September 30, 1991. The term of repayment will be established on October 1, 1987 and reviewed annually thereafter and will be based upon 75% of the then established life of the mine.

### Capital leases

On June 30, 1986, a wholly-owned indirect subsidiary of the Company sold substantially all of the Mercur Mine mobile equipment for US\$10,000,000 and contemporaneously leased back the equipment for a period of five years with an option to purchase the equipment at the end of the lease for US\$3,000,000. The lease requires semi-annual payments of US\$1,086,000 and a supplemental rental payment of US\$1,000,000 at the end of the lease if the equipment is not purchased.

In accordance with the terms of the lease US\$3,016,000 was recorded as a capital lease obligation bearing interest at 10.8% per annum. The remainder of the lease has been accounted for as an operating lease which requires minimum annual lease payments of US\$1,435,000. Rent expense of US\$718,000 was recorded during 1986.

Other capital leases were incurred principally in connection with financing mine equipment and are repayable over periods ranging from two to five years with interest ranging from 8.6% to 12.5%.

<b>11. Deferred revenue</b>	<b>1986</b>	<b>1985</b>
Gold Company of America	\$38,108	\$44,516
Bullion loan	28,536	34,868
Gold purchase warrants	5,521	—
Renabie Gold Trust	5,360	6,265
Other	3,453	—
	<b>80,978</b>	<b>85,649</b>
Current portion of deferred revenue	19,110	—
	<b>\$61,868</b>	<b>\$85,649</b>

#### **Gold Company of America**

In January 1985, Barrick Minerals (Canada) Inc., a wholly-owned subsidiary of the Company, entered into two gold purchase agreements amounting to \$53,000,000 (US\$40,000,000) for the sale of gold from the Camflo Mine to Gold Company of America, a limited partnership in which a wholly-owned indirect subsidiary of the Company is a general partner. The contracts which provide for the purchase of up to 395,725 ounces of gold of which 17,082 ounces have been delivered to December 31, 1986, require gold to be delivered to the Partnership based on a percentage rate per annum of the total contract price which rate is dependent on the prevailing price of gold at the time of its delivery. The rate is 8% when gold is US\$365 per ounce and increases or decreases 1% for every US\$35 change in the price of gold to a maximum US\$1,500 per ounce.

The total amount of reserves which may be available for gold deliveries under these agreements is unknown, however, based on the Camflo Mine's presently known reserves, including its interest in the Malartic Hygrade reserves, the mine has approximately five years of reserves remaining. All of the assets of Barrick Minerals (Canada) Inc., including the Camflo Mine (net book value \$45,417,000), have been pledged as security for the gold purchase agreements.

The net proceeds have been accounted for as deferred revenue and will be recognized in income over the estimated economic life of the contracts.

#### **Bullion loan**

As at December 31, 1986 64,975 ounces were outstanding under the bullion loan. The bullion loan bears interest at approximately 2% per annum, requires semi-annual mandatory deliveries of 9,282 ounces and is collateralized by the assets of the Mercur Mine, which have a carrying value in these financial statements of \$57,193,000, and a guarantee of the Company. In addition to the mandatory deliveries, annually on April 1 until the loan is repaid, the borrower is required to make accelerated deliveries equal to 50% of the cashflow from the Mercur Mine after deducting approved capital expenditures and mandatory deliveries for the preceding year. Accelerated deliveries due for the year ended December 31, 1986 amounted to 7,937 ounces.

Bullion loan proceeds have been accounted for as deferred revenue and are recognized in income as deliveries are made at the rate of US\$319 per ounce.

#### **Gold purchase warrants**

On September 25, 1986 the Company issued 2,000,000 units at \$21.50 per unit, each unit consisting of one common share and two gold purchase warrants. Each warrant entitles the holder to purchase 0.02 troy ounces of gold (80,000 ounces in total) from the Company at US\$9.20 (which is equivalent to US\$460 per ounce of gold) at anytime up to September 25, 1990. The warrants were issued at \$1.50 per warrant and net proceeds of \$5,521,000 have been accounted for as deferred revenue and will be recognized in income at the earlier of the date the warrants are exercised or expire.



**Notes to Consolidated Financial Statements** *(continued)*  
American Barrick Resources Corporation

**Renabie Gold Trust**

Under the terms of a gold acquisition agreement the Renabie Gold Trust receives a percentage of future gold production from the Renabie Mine, in which the Company has a 50% interest, ranging from 3% to 10%, depending upon the then current price of gold. The Renabie Joint Venture has issued to the Trust a \$60,000,000 debenture collateralized by a mortgage and a charge on the Renabie Mine and a floating charge over Renabie's other properties. The Company's share of these assets at December 31, 1986 is carried at \$22,996,000 in these financial statements.

The net proceeds received under the gold acquisition agreement are accounted for as deferred revenue and recognized in income as distributions are made to the Trust.

<b>12. Capital stock</b>	<b>Authorized</b>	<b>Issued</b>	
Common shares	Unlimited	22,150,845	\$123,780
First preferred shares			
Series A	9,922,476	157,547	299
Series B	9,047,619	—	—
Second preferred shares			
Series A	14,953,875	227,021	552
Warrants		6,199,001	3,159
			<u>\$127,790</u>
		<b>Shares</b>	
<b>Common shares</b>			
Outstanding at December 31, 1983		57,784,184	\$ 46,005
Issued during 1984			
For cash		14,754,617	30,730
On conversion of first preferred shares, series A		421,005	799
In consideration for all of the outstanding shares of Camilo, except for shares held by Bob-Clare		22,817,795	47,917
Outstanding at December 31, 1984		95,777,601	125,451
Issued during 1985			
For cash		1,786,950	2,643
On conversion of first preferred shares, series A		13,286	25
One for five share consolidation		(78,062,270)	—
Outstanding at December 31, 1985		19,515,567	128,119
Issued during 1986			
For cash		2,341,624	39,978
On conversion of first preferred shares, Series A		7,423	71
Series B		190,476	2,000
On exercise of warrants		40,200	482
For a mineral exploration property		55,555	500
Elimination of deficit by a reduction in stated capital of common shares		—	(47,370)
Outstanding at December 31, 1986		22,150,845	\$123,780



	Shares	
<b>First preferred shares, series A</b>		
Outstanding at December 31, 1983	629,240	\$ 1,195
Converted to common shares	(421,005)	(799)
Redeemed for cash	(288)	(1)
Outstanding at December 31, 1984	207,947	395
Converted to common shares during 1985	(13,286)	(25)
Outstanding December 31, 1985	194,661	370
Converted to common shares during 1986	(37,114)	(71)
Outstanding December 31, 1986	157,547	\$ 299
<b>First preferred shares, series B</b>		
Issued during 1984		
In consideration for all of the outstanding shares of Bob-Clare	952,381	\$ 2,000
Outstanding at December 31, 1984 and December 31, 1985	952,381	2,000
Converted to common shares during 1986	(952,381)	(2,000)
Outstanding at December 31, 1986	—	\$ —
<b>Second preferred shares, series A</b>		
Outstanding at December 31, 1983	819,351	\$ 1,991
Exchanged for Cullaton common shares	(359,719)	(874)
Redeemed for cash	(203,613)	(495)
Outstanding at December 31, 1984	256,019	622
Redeemed for cash	(18,951)	(46)
Outstanding at December 31, 1985	237,068	576
Redeemed for cash	(10,047)	(24)
Outstanding at December 31, 1986	227,021	\$ 552
<b>Warrants</b>		
Issued during 1984		
In consideration for all of the outstanding warrants of Camflo	6,000,001	\$ 3,000
Outstanding at December 31, 1984	6,000,001	3,000
Issued during 1985		
In part consideration for the Barrick Mercur Loan	400,000	320
Outstanding at December 31, 1985	6,400,001	3,320
Exercised during 1986	(201,000)	(161)
Outstanding at December 31, 1986	6,199,001	\$ 3,159

All references to common shares that follow reflect the effect of a one for five share consolidation which became effective December 13, 1985.

## Notes to Consolidated Financial Statements *(continued)*

American Barrick Resources Corporation

On September 25, 1986 the Company issued 2,000,000 units at \$21.50 per unit, each unit consisting of one common share and two gold purchase warrants. The common shares were issued at \$18.50 per share for a total consideration of \$37,000,000. Costs associated with the common share issue have been charged directly to retained earnings.

During the year the Company issued 229,944 common shares pursuant to two flow through share financing arrangements to raise funds to be spent on Canadian mineral exploration. The total consideration for the shares was \$3,500,957, of which \$2,184,980 represented consideration for the shares issued and the balance was offset against the mineral exploration expenditures incurred.

On May 28, 1986 the shareholders of the Company approved a reduction in the stated capital of the common shares of \$47,370,000, which eliminated the deficit as at December 31, 1985.

### **First preferred shares, series A**

The first preferred shares, series A, carry a non-cumulative dividend of \$0.114 per share per annum and are convertible into common shares on a five-for-one basis. These shares are redeemable at the option of the Company at the lesser of \$1.90 or at a price (stipulated by the Company) equal to one fifth the weighted average price of the Company's common shares on The Toronto Stock Exchange over a period of 20 consecutive trading days ending not more than 5 days prior to the date upon which notice of such price is given by the Company.

### **Second preferred shares, series A**

The second preferred shares, series A carry a non-cumulative dividend of \$0.222 per share per annum and are redeemable at the option of the holder at \$2.43 per share. Prior to March 5, 1984 these shares were exchangeable into shares of Cullaton Lakes Gold Mines Limited.

### **Warrants**

The warrants are comprised of 5,999,001 warrants which entitle the holder to subscribe for one fifth of a common share of the Company at \$10.50 per share and expire on July 13, 1989 and 200,000 warrants which entitle the holder to subscribe for one fifth of a common share of the Company at \$8.00 per share and expire on June 27, 1987.

### **Common share purchase options**

There are common share purchase options outstanding, expiring at various dates to October 13, 1990 for 453,500 (1985, 474,580) common shares at prices between \$7.00 and \$22.75 per share. Subsequent to December 31, 1986, options to acquire an additional 750,000 common shares at \$27.75 per share were issued with an expiry date February 5, 1991.

	1986	1985
Outstanding at beginning of year	474,580	428,950
Granted during the year	109,900	378,400
Exercised at an average price of \$7.09 per share (1985 \$6.80 per share)	(111,880)	(200,620)
Expired during the year	(19,100)	(132,150)
Outstanding at end of year	453,500	474,580

In 1984, 29,400 common shares were issued upon the exercise of stock options at an average price of \$6.43 per share.

### **Fully diluted earnings per share**

Fully diluted earnings per share reflect the dilutive effect of the conversion of the first preferred shares and the exercise of the common share purchase warrants and options outstanding as at December 31, 1986. Interest on the funds which would have been received had the warrants and options been exercised of \$612,000, net of income tax, has been imputed at a rate of 8% per annum.

<b>13. Other income</b>	<b>1986</b>	<b>1985</b>	<b>1984</b>
Share of earnings of equity accounted companies	\$2,072	\$3,007	\$ 833
Interest, dividend and option income	3,280	2,460	2,276
Other income (net)	558	1,237	(509)
	<b>\$5,910</b>	<b>\$6,704</b>	<b>\$2,600</b>

During the year, the Company sold call options to increase its income from marketable securities. As at December 31, 1986, the Company had included in income a portion of the option premium relating to unexpired options.

#### **14. Income taxes**

As the Company operates in a specialized industry and in several geographic segments its income is subject to varying rates of taxation. A reconciliation of the Canadian federal income tax rate with the Company's effective income tax rate is set out below:

	<b>1986</b>	<b>1985</b>	<b>1984</b>
Canadian federal income tax rate of expense (recovery)	46.0%	46.0%	(46.0)%
Increase (decrease) resulting from:			
Provincial income tax rates	(0.1)	(4.5)	2.3
Resource and depletion allowances	(23.7)	(29.7)	(11.2)
Non deductible depreciation and depletion arising from acquisitions	8.5	0.5	13.5
Capital (gains) losses	(3.2)	1.9	4.5
Unrecorded tax benefits of subsidiaries and equity accounted affiliates	—	12.4	2.8
Rate differential on drawdown of deferred income tax benefit of loss carry-forwards	(11.4)	—	—
Foreign tax rates	(1.3)	(0.3)	—
Non deductible expenses	—	—	3.6
Miscellaneous	0.3	(1.2)	(1.0)
Effective rate of income tax expense (recovery)	<b>15.1%</b>	<b>25.1%</b>	<b>(31.5)%</b>
	<b>1986</b>	<b>1985</b>	<b>1984</b>

The principal timing differences and their tax effect are as follows:

Current year's tax losses	\$ 2,341	\$ 2,037	\$1,050
Depreciation, depletion and amortization	(4,596)	(2,411)	438
Resource allowances	12	(14)	(90)
Capitalized expenditures	(688)	(632)	—
Mine development costs	(27)	(433)	—
Pension and employee benefits	26	217	—
Other items	132	(264)	110
	<b>\$ (2,800)</b>	<b>\$ (1,500)</b>	<b>\$1,508</b>
Net income (loss) before taxes:			
Canada	\$ 1,407	\$ (4,646)	\$ (6,520)
United States	16,455	10,169	1,296
	<b>\$17,862</b>	<b>\$5,523</b>	<b>\$ (5,224)</b>

# Notes to Consolidated Financial Statements *(continued)*

American Barrick Resources Corporation

	1986	1985	1984
Deferred taxes by jurisdiction:			
United States - federal	\$(2,408)	\$(1,320)	\$ -
Canadian - federal	(307)	20	1,112
Other	(85)	(200)	396
	<u>\$(2,800)</u>	<u>\$(1,500)</u>	<u>\$1,508</u>

## 15. Extraordinary items

	1986	1985	1984
Provision for loss on petroleum and natural gas interests, net of \$9,475 income taxes recovered (1984, \$1,900 expense)	\$ -	\$24,004	\$10,099
Provision for loss on investment in affiliated company, net of \$1,845 income taxes recovered (1984, \$500)	-	2,388	694
Computer software costs	-	-	1,585
	<u>\$ -</u>	<u>\$26,392</u>	<u>\$12,378</u>

Further to its decision to discontinue its oil and gas operations, including those held through an affiliated company, the Company fully provided for its oil and gas interests based on its estimate of their net realizable value.

## 16. Related party transactions

Office premises and administrative expenses are shared with certain related companies, including a company the shareholder of which is a director of the Company and other related companies. These expenses are allocated amongst the companies based on their proportionate share of the actual costs incurred. Fees for legal and consulting services have been paid to professionals who are directors of the Company, a subsidiary or a related company.

Amounts due from affiliated companies at December 31, 1986 amounting to \$872,000 (1985 \$659,000) are included in accounts receivable.

At December 31, 1986 there were outstanding \$284,000 (1985 \$322,000) of residence loans bearing interest at 7% per annum and \$897,000 (1985 \$1,431,000) of interest free non-recourse loans, repayable by 1991, to officers or former officers for the acquisition of Company shares under an incentive stock purchase plan; of these amounts \$863,000 (1985 \$772,000) is included in accounts receivable and \$318,000 (1985 \$981,000) is included in other assets.



## 17. Business segments

The Company operates in the gold mining industry in two geographic areas: Canada and the United States.

	1986	1985	1984
Revenue			
Canada	\$ 27,142	\$ 23,642	\$12,158
United States	62,682	24,876	1,625
	<u>\$ 89,824</u>	<u>\$ 48,518</u>	<u>\$13,783</u>
Depreciation, depletion and amortization			
Canada	\$ 9,303	\$ 9,360	\$ 3,903
United States	6,043	2,137	652
	<u>\$ 15,346</u>	<u>\$ 11,497</u>	<u>\$ 4,555</u>
Income (loss) before extraordinary items			
Operating income (loss)			
Canada	\$ 1,906	\$ (1,710)	\$ (1,128)
United States	20,544	7,974	(7)
	<u>22,450</u>	<u>6,264</u>	<u>(1,135)</u>
General corporate expenses, net	(4,413)	(497)	(6,050)
Deferred income taxes	(2,800)	(1,500)	1,508
Exploration costs	(175)	(448)	—
Discontinued operations	—	204	1,961
	<u>\$ 15,062</u>	<u>\$ 4,023</u>	<u>\$ (3,716)</u>
Identifiable assets by geographic area	1986	1985	
Canada	\$ 96,742	\$ 91,263	
United States	140,641	81,408	
Identifiable assets	<u>237,383</u>	<u>172,671</u>	
Corporate assets	157,449	22,295	
Investments	19,653	19,929	
Total assets	<u>\$414,485</u>	<u>\$214,895</u>	

## 18. Joint ventures

The Company's 50% interest in Renabie, 26.25% interest in Pinson and 23.125% interest in Valdez Creek have been proportionately consolidated. The Company's interests in these investments are summarized below:

	1986	1985	1984
Assets	\$54,866	\$45,962	\$24,427
Liabilities	15,571	10,958	12,251
Revenue	22,512	8,970	5,595
Expenses	17,193	9,450	6,668

The Company has granted an option to acquire 10% of the Company's interest in Renabie for \$1,160,000 exercisable until January 1, 1989.

## Notes to Consolidated Financial Statements *(continued)*

American Barrick Resources Corporation

Under the terms of the Renabie shareholder agreement either Barrick or its partner may, at any time after December 31, 1985, require the other to purchase its interest in Renabie at a stipulated price or, at the other's option, sell its own holding to the other partner at such price.

During 1986, Valdez Creek experienced operating difficulties. The Company is closely monitoring current operations and is reviewing the economic viability of the project.

### 19. Commitments and contingent liabilities

a) Pursuant to an operating agreement with Barrick Resources (USA) Inc. ("Barrick Resources"), a wholly-owned indirect subsidiary of the Company, Gold Standard Inc. ("GSI") is entitled to a 15% net profits interest in the Mercur Mine. GSI has filed suit in the Third Judicial District Court of Tooele County, Utah, against the Company and Barrick Resources, among others, alleging that the defendants have breached certain of their obligations under the operating agreement.

GSI is seeking relief in the action of, among other things, the rescission of the Operating Agreement, the return of title to the Mercur Mine to GSI (or payment to GSI of US\$294 million) and approximately US\$650 million.

In June of 1985, the Company requested that its counsel review certain anticipated claims by GSI with respect to the Mercur Mine. The first was a claim that the 25% participating interest of GSI in the Mercur Mine had been improperly converted to a 15% net profits interest; the second was a claim by GSI of a right to reacquire its initial 25% participating interest in the Mercur Mine; and the third was a claim by GSI of a right of first refusal in the event of a sale of Getty Mining Company's (former owner) interest in the Mercur Mine. Based upon a review of the documentation made available to it by Getty, the Company's counsel advised that the anticipated claims of GSI appeared to be without merit and the likelihood of an unfavourable outcome to Barrick was relatively remote.

To the extent that the claims in the complaint extend beyond the anticipated claims, Barrick's counsel is unable to render an opinion at this time since the lawsuit was only recently filed and no discovery has been undertaken. The Company's management is of the opinion that the lawsuit is without merit and intends to vigorously defend the action. It is not possible to estimate the loss, if any, which might result from this claim. Any such loss would be accounted for as a prior period adjustment.

b) The Company is a party to various claims, legal actions and complaints arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the business or financial position of the Company.

c) The Company has guaranteed a mortgage payable by Muskingum, aggregating US\$2,262,000 at December 31, 1986 (US\$3,413,000 at December 31, 1985), which is collateralized by a lien upon substantially all of the assets of Muskingum. This mortgage is being repaid on a monthly basis over two years from Muskingum's cash flow and it is unlikely the Company's guarantee will be called upon.

d) In conjunction with the Company's gold marketing policy it has entered into an agreement with a third party to carry out trading in gold options. Under the terms of the agreement the trading is conducted by the third party, with profits to be shared equally and losses to be borne in total by the third party. The Company is the guarantor of the account with the metal trading broker and has funded the account with a margin deposit of \$3,836,000 (US\$2,780,000). As at December 31, 1986 there were realized and unrealized losses from the trading activities of approximately \$4,000,000 for which the Company is contingently liable. No amount has been provided in the accounts as the Company does not expect to be called upon under its guarantee.

e) As at December 31, 1986, under the Company's gold hedging program, 92,600 ounces of gold had been sold forward for delivery through December 1987, at an average price of US\$364 per ounce. Revenue is recognized as gold is delivered. Under the terms of the US\$50,000,472, 5 1/4%

guaranteed notes due October 31, 1991, the Company is restricted from selling forward more than 50% of its annual consolidated gold production.

f) The Company has decided, based on the results of its underground development work, to bring the Holt-McDermott Mine into commercial production. Overall development costs of the mine are estimated at \$50,000,000. As at December 31, 1986, the Company had entered into contracts and purchase commitment aggregating \$4,671,000.

g) Deferred revenue deliveries based on a gold price of US\$400 per ounce, and long-term debt repayments, including capital lease obligations, estimated to be delivered or repaid in each of the next five years are as follows:

1987	\$31,892
1988	27,453
1989	25,143
1990	16,775
1991	32,759

## 20. Subsequent events

### PanCana Minerals Ltd. acquisition

Pursuant to an Arrangement Agreement dated December 16, 1986 between the Company and PanCana Minerals Ltd. ("PanCana"), the Company acquired on January 17, 1987 all of the issued and outstanding shares of PanCana in exchange for 2,109,224 common shares of the Company, valued at \$37,966,032, and a cash payment of \$333,573. The offer to acquire PanCana shares has been extended to the convertible debenture holders of PanCana, which may require the issue of an additional 230,384 common shares of the Company. PanCana has as its principal asset a 50% interest in the Goldstrike Mine located in Nevada, U.S.A.

### Guaranteed gold indexed notes

On February 26, 1987 the Company through a wholly-owned indirect subsidiary issued US\$50,000,916, 2% guaranteed gold indexed notes due 1992. The notes are redeemable at the option of the holder at any time after February 26, 1988 for an amount equal to the value of the specified gold entitlement based on the then current price of gold. The specified gold entitlement is initially 100 grams of gold increasing to 105.145 grams of gold on maturity for each note. The notes are unsecured and guaranteed by the Company.

## 21. Summary financial information

The following table sets out summarized financial information about unconsolidated subsidiaries and 50% or less owned investees:

	Unconsolidated subsidiaries			50% or less owned investees		
	1986	1985	1984	1986	1985	1984
Current assets	\$13,173	\$15,576	\$16,754	\$ —	\$ 614	\$ 2,428
Non-current assets	42,213	47,701	45,544	—	8,693	48,712
Current liabilities	25,528	28,055	27,745	—	9,157	27,210
Non-current liabilities	17,770	31,032	34,553	—	150	12,310
Revenue	56,256	55,549	55,203	842	2,120	11,058
Operating costs	54,184	52,601	52,601	842	2,017	10,703
Net income (loss)	2,072	2,516	2,781	—	—	(1,343)

## Notes to Consolidated Financial Statements *(continued)*

American Barrick Resources Corporation

### 22. Unaudited pro forma financial information

The unaudited pro forma results of operations of the Company as if the acquisition of Goldstrike as discussed in note 3 had occurred January 1, 1985 and as if the other acquisitions in note 3 had occurred January 1, 1984 are as follows:

	1986	1985	1984
Revenue	<b>\$102,490</b>	\$ 82,909	\$58,486
Net income before extraordinary items	<b>15,872</b>	4,303	(1,441)
Net income (loss) for the year	<b>15,872</b>	(22,084)	(13,819)
Net income (loss) per share (dollars)			
Before extraordinary items	<b>0.78</b>	0.22	(0.10)
For the year	<b>0.78</b>	(1.15)	(0.90)
Fully diluted net income (loss) per share			
Before extraordinary items	<b>0.74</b>	0.22	(0.10)
For the year	<b>0.74</b>	(1.15)	(0.90)

The excess of the purchase price over the book value of the net assets acquired will be amortized over the estimated economic life of the underlying assets to which it has been allocated.

### 23. Pension obligations

The Company and its subsidiaries have several pension plans covering approximately 75% of their employees, including certain employees in other countries. The total pension expense for 1986, 1985 and 1984 was \$766,000, \$352,000 and \$147,000 respectively. The Company makes annual contributions to the defined contribution plans equal to the amounts accrued for pension expense at rates of 4½% to 5% of employees' basic earnings. A comparison of accumulated plan benefits and plan net assets for the Company's domestic defined benefit plan is presented below:

	1986	1985	1984
Actuarial present value of accumulated vested plan benefits as at December 31	<b>\$1,479</b>	\$638	\$567

Prior to 1986, the Company shared equally the liability arising under this plan with an affiliate. Commencing in 1986 the Company assumed the full liability, however, no assets have been set aside to satisfy these benefit obligations.

The Company has fully accrued for the accumulated plan benefits as noted above and funds the benefits as they become payable. The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 8%.

### 24. Comparative figures

Certain comparative figures have been restated to conform to the 1986 presentation.

## 25. Differences from United States accounting principles

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada. United States generally accepted accounting principles differ in the following material areas:

- (a) The Company's second preferred shares, series A which are redeemable by the holder at any time, would be excluded from capital stock. Notes receivable from officers and directors relating to share purchase loans would be recorded as a reduction of capital stock. Costs incurred in raising capital, which have been charged directly to retained earnings, would be deducted from capital stock. As at December 31, 1986 and 1985 capital stock would be reduced by \$4,576,000 and \$3,689,000 respectively.
- ✓ (b) Certain deferred taxes relating to business combinations accounted for using the purchase method would not be carried forward. Accordingly as at December 31, 1986 and 1985, deferred tax credits amounting to \$6,884,000 and \$6,938,000, respectively, would be eliminated and the carrying value of "Property, Plant and Equipment" would be reduced by \$6,884,000 and \$6,938,000 respectively.
- ✓ (c) Current liabilities would be increased and long-term debt reduced by \$42,072,000 representing the additional current portion of callable obligations under United States generally accepted accounting principles.
- ✓ (d) Long-term debt and other assets would be reduced by \$7,727,000 representing the premium due on maturity of notes payable.
- (e) Current liabilities would be increased and deferred revenue reduced by \$6,986,000 in 1985 representing the current portion of deferred revenue.
- (f) The Company's subsidiary Muskingum Mining Incorporated would be accounted for by the cost method. In addition, the Company's share of earnings of other equity accounted companies would be restated to reflect an adjustment to the previously reported amounts in order that the investees conform to United States accounting principles.
- (g) Deferred foreign exchange translation gains and losses on monetary items with fixed or ascertainable lives would be included in income.
- (h) Deferred refunding costs would be charged to earnings as incurred.
- (i) Interest costs associated with properties under development would be capitalized.
- (j) Certain overhead administrative costs would be charged to earnings as incurred.
- (k) As a result of the accounting for deferred taxes noted in paragraph (b), income taxes would be restated.
- (l) Deferred computer software development costs would be charged to earnings as incurred and included in operating income rather than as an extraordinary item.
- (m) The provision for loss on petroleum and natural gas interests and sale of investment in affiliated company, classified as extraordinary items, would be included in loss from discontinued operations.
- (n) Any loss which may arise from the claims described in note 19(a) would be accounted for currently in the period in which the settlement occurs.



# Notes to Consolidated Financial Statements *(continued)*

American Barrick Resources Corporation

The following summary sets out the adjustments to the Company's reported net income or loss in order to conform to accounting principles generally accepted in the United States:

	1986	1985	1984
Net income (loss) before extraordinary items as reported	\$15,062	\$ 4,023	\$ (3,716)
Cost method applied to Muskingum Mining Incorporated and change in share of earnings of other equity accounted companies	(2,072)	(2,516)	(897)
Foreign exchange translation	555	—	—
Refunding cost	(347)	—	—
Capitalized interest	—	—	516
Write-off of capitalized overhead costs	—	346	(346)
Change in income taxes	—	—	(634)
Deferred software development costs	—	—	(45)
Discontinued operations	—	(204)	(1,961)
Net income (loss) from continuing operations	13,198	1,649	(7,083)
Discontinued operations	—	204	1,961
Reclassification of extraordinary items as discontinued operations	—	(26,392)	(10,793)
Net income (loss) for the year based on United States accounting principles	\$13,198	\$(24,539)	\$(15,915)
Weighted average number of shares outstanding during the year (in thousands)			
– Primary	21,002	19,044	15,229
– Fully diluted	21,077	19,044	15,229
Net income (loss) per share from continuing operations – Primary and fully diluted	\$0.63	\$0.09	\$(0.47)
Net income (loss) per share – Primary and fully diluted	\$0.63	\$ (1.29)	\$ (1.05)

All warrants, options and convertible preferred shares have been treated as common stock equivalents.

The following adjustments would be necessary to restate the Company's retained earnings in accordance with accounting principles generally accepted in the United States:

	1986	1985	1984
Retained earnings (deficit) as reported (note 12)	\$13,617	\$(47,370)	\$(24,854)
Cost method applied to Muskingum Mining Incorporated and change in share of earnings of other equity accounted companies	(5,485)	(3,413)	(897)
Foreign exchange translation	555	—	—
Refunding cost	(347)	—	—
Capitalized interest	516	516	516
Write-off of capitalized overhead costs	—	—	(346)
Change in income taxes	(634)	(634)	(634)
Costs incurred in raising capital	3,127	1,682	1,682
Retained earnings (deficit) based on United States accounting principles	\$11,349	\$(49,219)	\$(24,533)

**Auditors' report**

To the Shareholders of  
American Barrick Resources Corporation

We have examined the consolidated balance sheets of American Barrick Resources Corporation as at December 31, 1986 and 1985 and the consolidated statements of income, retained earnings and changes in financial position for each of the three years in the period ended December 31, 1986. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1986 and 1985 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1986 in accordance with generally accepted accounting principles in Canada applied on a consistent basis.

Toronto, Canada  
March 6, 1987

*Coopers & Lybrand*  
Chartered Accountants

**Comments by auditors for United States readers  
on Canada-United States reporting differences**

In the United States, reporting standards for auditors require that their opinion be expressed as being subject to the outcome of significant uncertainties when the financial statements are affected by matters such as that referred to in Note 19(a) of the financial statements. The above opinion is expressed in accordance with Canadian requirements and is not expressed as being subject to, and provides no reference to, this uncertainty since such an opinion would not be in accordance with Canadian reporting standards for auditors when the matter is adequately disclosed in the financial statements.

Toronto, Canada  
March 6, 1987

*Coopers & Lybrand*  
Chartered Accountants